




J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

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TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **CONSULTANT'S FISCAL REVIEW OF THE
GAY AND LESBIAN CENTER OF LONG BEACH**

At the Department of Health Services' (DHS) Office of Aids Programs and Policies (OAPP) request, we obtained a consultant, Nuñez and Associates, to evaluate the fiscal controls and financial management of the Gay and Lesbian Center of Long Beach (GLCLB). The GLCLB provides HIV/AIDS education, testing, counseling, and referral services under contract with OAPP. During Fiscal Year 2002-2003, GLCLB received approximately \$229,000 in funding from OAPP. Attached is the consultant's final report.

Summary of Report

The report states that GLCLB needs to improve its fiscal operations and financial controls. One major issue facing GLCLB was a \$180,000 debt to the Internal Revenue Service (IRS). The debt was the result of previous GLCLB management failing to deposit with the IRS deposit payroll taxes deducted from employees' pay. The consultants reported that the debt to the IRS was a threat to GLCLB's financial viability. Subsequent to the consultant's review, GLCB advised OAPP that they had completed a refinancing of their facility and had used part of the proceeds of the loan to repay the debt to the IRS.

The consultant's report also notes a number of other areas where GLCLB needs to improve its financial accounting practices, internal controls and fiscal policies and procedures.

GLCLB reviewed the findings and recommendations contained in the consultant's report. GLCLB's responses are incorporated into the final report, and are shown at the end of each finding under the heading "GLCLB's Action Plan". GLCLB also indicated that they have recently hired a new executive director.

We recommend that OAPP verify that GLCLB repaid the debt to the IRS, and monitor to ensure that GLCLB takes action to address the other findings and recommendations in the report.

If you have any questions, please call me or your staff may call DeWitt Roberts at (626) 293-1101.

Attachment

JTM:DR:js

c: David E. Janssen, Chief Administrative Officer
Thomas L. Garthwaite, M.D., Director and Chief Medical Officer, DHS
Charles Henry, Director, OAPP, DHS
Public Information Office
Audit Committee
Board of Directors, GLCLB

**FINAL REPORT ON
STUDY AND EVALUATION OF
FISCAL CONTROLS AND
FINANCIAL MANAGEMENT
OF
ONE IN LONG BEACH INC.
GAY & LESBIAN CENTER OF LONG BEACH (GLCLB)**



**Prepared for the
LOS ANGELES COUNTY DEPARTMENT OF AUDITOR-CONTROLLER
AND
THE DEPARTMENT OF HEALTH SERVICES OFFICE OF AIDS PROGRAMS
AND POLICY (OAPP)**

June, 2003

Prepared by



**NUÑEZ & ASSOCIATES, INC.
1440 N. Harbor Boulevard, Suite 800
Fullerton CA 92835
714/449-3322**

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**REPORT ON RESULTS OF A FINANCIAL ANALYSIS OF THE
GAY & LESBIAN CENTER OF LONG BEACH (GLCLB)**

To the County of Los Angeles Department of Auditor-Controller and the
Department of Health Services OAPP:

In April 2002, we performed a financial analysis of GLCLB to determine whether financial operations have been appropriately conducted and to provide assistance to GLCLB in its efforts to achieve financial stability. Our work was performed in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement on Standards for Consulting Services.

The management of GLCLB is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

Our study and evaluation of the fiscal controls and financial management process would not necessarily disclose all deficiencies in the internal control structure that might have occurred during the period under consideration.

EVALUATIONS PERFORMED

At GLCLB, we evaluated the internal control and financial accounting systems relative to the following areas as they relate to fiscal controls and financial management:

- Cash
- Receivables
- Fixed Assets
- Debt
- Grant Revenue
- Provider Service Revenue
- Special Events Revenue
- Contributions
- Payroll Function
- Other Expenses
- Tax Compliance

In addition to evaluating the financial controls over the financial management function, we evaluated the administrative and managerial controls governing the following administrative functions:

- Internal Accounting Issues
- Board Education
- Administration Issues
- Recommendations for Improvement
- Budget Management
- Vendor Agreements
- Insurance Requirements
- Human Resources Function
- Grants Management Function

Our evaluation was based on financial statements and agency records prepared internally by GLCLB for the year ended December 31, 2001 and the first quarter of 2002. Prior to 2001, we found there were inadequate or insufficient financial statements or supporting documentation to conduct a reliable analysis.

We evaluated internal control over cash procedures related to accountability and reconciliation of the general ledger to bank statements. Receiving and handling of checks and cash contributions was observed and discussed to evaluate controls over cash received. Deposits of monies received were traced to the general ledger.

A listing of accounts receivable was analyzed to evaluate procedures for collection and identifying outstanding items that should be placed in an allowance for doubtful accounts.

A furniture and equipment listing was obtained and reviewed for completeness and accuracy, and to determine the frequency of fixed asset inventories. We also reviewed capitalization procedures for fixed assets.

We contacted the Internal Revenue Service (IRS) agent who handles GLCLB's account to obtain the principal, penalty and interest owed to the IRS as of April 29, 2002, and again as of October 30, 2002 and January 10, 2003. As of June 20, 2003, GLCLB reports that it still owes approximately \$180,000 to the IRS.

Grant and provider service agreements, which constitute the major source of GLCLB's revenue, were reviewed to determine the requirements for compliance. Copies of invoices to grantors were reviewed to evaluate completeness and timely submission.

Procedures for handling the AIDS Walk of Greater Long Beach, a special event, were reviewed to evaluate cash collection procedures and distribution of event cash to GLCLB and to grant recipients.

Federal and state income tax returns and reports were reviewed for completeness, accuracy and to verify they were timely filed.

Accounting policies and procedures were discussed at length to evaluate existing controls and methods since GLCLB did not have an Accounting Manual. Insurance policies were examined to determine whether GLCLB was in compliance with grants and provider agreements.

Individual Human Resources files were reviewed to determine if they are complete and in compliance with regulatory and grant provisions. Individual timesheets were obtained and reviewed for accuracy and proper authorization.

Expense transactions were reviewed to evaluate controls over the purchasing function, authorizations for payments, and check signing requirements.

We developed recommendations for improvement relative to those areas where improved oversight by Board members, stronger internal controls, or different administrative procedures will result in a more stable financial position for GLCLB.

As part of the financial analysis we conducted an entrance conference, a pre-exit conference and an exit conference with GLCLB representatives. Representatives from the County of Los Angeles Department of Auditor-Controller and the Department of Health Services OAPP (County) were present at both the entrance and exit conferences. All findings were discussed with both GLCLB representatives and the County representatives during the conduct of the work. At the conclusion of our financial analysis of GLCLB's operations, we issued a draft report at the end of April 2002. A copy of the draft report was provided to GLCLB as well as to the County representatives.

As part of this engagement, we also prepared and conducted a Board of Directors' Training seminar, which was conducted on May 11, 2002, in the Westin Hotel in Long Beach.

CONCLUSION

As a result of our study and evaluation, we noted certain practices that deserve further attention and resolution. We have reported these in the Summary of Findings and Recommendations section of this report. Most significantly, GLCLB did not implement our recommendation to refinance its building and use the proceeds of the refinance along with additional Board member loans (if needed), to pay off the IRS by July 2002. As of June 20, 2003, GLCLB reported that it still owes the IRS approximately \$180,000, down from \$270,750 owed as of October 30, 2002. This balance is comprised of delinquent payroll taxes and interest accumulated between 1998 and 2001. On January 10, 2003, the IRS indicated that it abated all penalties but will not abate the interest due. In June 2003, GLCLB reported that it intends to refinance the building by the end of 2003 in order to pay the IRS debt. As of the date of this report, GLCLB has not been successful in refinancing the building.

Another significant matter pertains to GLCLB's failure to implement our recommendation to reflect the delinquent payroll tax debt as a current liability on GLCLB's balance sheet. Since the delinquent payroll taxes are viewed by the IRS as currently due and payable in full, this debt cannot be considered a long-term debt. Nonetheless, the December 31, 2001 audit report that

was submitted recently to the County reflects this payroll tax liability as a long-term liability. GLCLB's management has indicated that it will classify the IRS delinquent payroll tax debt as a current liability in its December 31, 2002 audited financial statements. GLCLB is currently in the process of soliciting bids for the December 31, 2002 financial statement audit.

GLCLB was afforded an opportunity to review the findings and recommendations contained in this report. At the end of September 2002, GLCLB submitted its responses to the draft report. GLCLB submitted updated information in January 2003 and June 2003. GLCLB's responses are incorporated into this final report, and are shown at the end of each finding under the heading "GLCLB's Action Plan".

EXECUTIVE SUMMARY

BACKGROUND

The Office of AIDS Program and Policy (OAPP) is part of Public Health Programs Services within the Department of Health Services of the County of Los Angeles. OAPP engages in activities to maximize access to services for persons with HIV/AIDS through a coordinated system of care in Los Angeles County. Many of these services are provided through contracts with local community-based organizations.

OAPP has contracts with GLCLB to provide HIV/AIDS related services to County residents including HIV/AIDS Case Management services, Residential Care Facilities, etc. Depending on the terms of the contracts, reimbursement is based on either of these two types of payment methods: Fee-For-Service or Cost Reimbursement. OAPP has indicated that GLCLB is having difficulties meeting its current financial obligations. OAPP has noted that GLCLB has limited fiscal controls and lacks adequate financial plans.

Nunez & Associates, Inc. was asked to conduct a financial analysis of the fiscal controls and financial management of GLCLB. Implementation of recommendations developed as a result of said analysis will enable OAPP to monitor GLCLB's ability to maintain financial and programmatic viability, and should also provide an early warning sign of any future problems, if any should arise, so that timely corrective action may be taken.

SCOPE

The scope of this project is to conduct an independent comprehensive financial analysis of GLCLB, to develop specific recommendations and financial management plans that will assist GLCLB in addressing the financial instability facing the organization as a whole, not just the OAPP contracts.

PERTINENT FACTS

The organization was incorporated as One In Long Beach, Inc. on March 24, 1980. The organization was granted exempt status under IRC 501(c)3 on September 9, 1980; the California Franchise Tax Board granted Exempt status on March 24, 1980. The organization operates GLCLB to provide a variety of social and self-improvement programs to the gay and lesbian community in Long Beach. GLCLB has programs for testing, education and counseling of persons who have contracted HIV/AIDS, or are considered to be at risk for HIV/AIDS. For several years, the management of GLCLB was primarily focused on program delivery aspects of the operation. Little attention was paid to the financial and administrative functions. This resulted in GLCLB having few internal controls, and not meeting its obligations on time. In addition, GLCLB had not had an annual independent audit of its financial statements since 1998. An audit of the December 31, 2001 financial statements was released to the County in September 2002. GLCLB is currently in the process of soliciting bids for an audit of its December 31, 2002 financial statements.

Beginning in 1998, payroll tax returns were not always filed when due and amounts withheld from employee payroll for federal and state taxes were not consistently remitted to the federal and state governments. This resulted in substantial liabilities due to both the IRS and the Employment Development Department (EDD) of the State of California. A liability of approximately \$180,000 remains due to the IRS for delinquent payroll taxes and interest. GLCLB is currently indicating that it intends to pay off the IRS soon after it completes the refinance of its building. GLCLB anticipates the debt will be paid in full by December 31, 2003. The EDD indicates that all payroll taxes delinquent as of April 2002 have been paid.

For the years 1998, 1999, and 2001, GLCLB filed late its IRS annual information returns, Forms 990. Therefore, the IRS assessed penalties totaling \$6,728, which are now due.

Beginning in 1998, the former Executive Director and other members of the staff who were responsible for the delinquencies in tax filings and tax payments, apparently entered into equipment lease and purchase contracts of substantial value without first advising the Board of Directors or obtaining its approval, contrary to the organization's internal regulations. These actions resulted in substantial financial damage to the organization, threatening its financial future and eventually, its viability.

In the year 2001, concerned members of GLCLB's Board of Directors became suspicious of some of the financial transactions and stepped forward to remedy this situation by playing a more active role in the organization's management. The former Executive Director and other staff members who failed to follow the organization's internal regulations were dismissed. This resulted in unemployment claims filed against GLCLB. Although GLCLB feels that it had good cause for the dismissals, the State Unemployment Benefits Board ruled that there was insufficient proof of intent to defraud on the part of the dismissed employees, and GLCLB was forced to pay unemployment benefits to those employees.

Thanks to the increased involvement of a number of members of the Board, delinquent payroll tax returns have been filed, but the delinquent taxes have not been paid. The Executive Director was replaced with an interim Executive Director. In October 2002, a permanent Executive

Director was hired. This permanent Executive Director left the organization during March of 2003. GLCLB's Board of Directors is currently accepting applications for a new Executive Director. The Board expects to fill the position by July 31, 2003. Currently, an Interim Executive Director is filling the position. Most of the positions in the organization have been filled with persons hired in the 2001 year. The current Board seems interested in implementing financial and administrative systems to assure effective management of the organization.

As a result of the negative impact of the IRS debt on the financial statements, we recommended that GLCLB repay the IRS payroll tax debt as soon as possible. GLCLB felt that it could raise the funds needed to pay the IRS through fundraisers and Board member loans, by July 2002. Since these plans did not appear achievable to us by July 2002, we recommended that GLCLB refinance its building in July 2002 if it was unsuccessful in its efforts to raise funds through fundraisers and Board member loans by that date. Although GLCLB initially agreed to this plan, GLCLB did not follow through with this agreement. GLCLB later indicated that it would instead refinance the building in September 2002. GLCLB did not follow-through with this plan either. Subsequently, GLCLB indicated that it would proceed with the refinance plans in February 2003. However, this did not materialize. In June 2003, GLCLB indicated that it had contacted a number of lenders but did not like their terms. GLCLB has now decided to wait until December 2003 to refinance the building. This turn of events would seem to indicate that GLCLB is not committed to paying the IRS debt through the agreed plan to refinance the building, since the interest rates are now lower than ever, and GLCLB has sufficient equity in the building to secure a loan that would enable GLCLB to pay the IRS debt in full.

ASSESSMENT OF CURRENT FINANCIAL STATUS

The current financial viability of GLCLB is severely impaired by the large balance due to the IRS. In fact, without that liability GLCLB would seemingly have sufficient financial assets to operate. GLCLB is impaired by its financial problems and the years of neglect. As a result, GLCLB lost, in December 2001, the City of Long Beach GEN-Q grant because it did not keep up with all of the grant requirements. One of the requirements was completing a financial audit of the organization. GLCLB was prevented from trying to secure a number of grants until it successfully completed a financial audit of the year ended December 31, 2001. The 2001 financial audit was completed in 2002.

The Board implemented substantial improvements since early in 2001, when some members of the Board began a more proactive role within the organization. GLCLB added a number of members to the Board who have financial experience and this change has yielded substantial improvements within the organization. However, the Board must remain proactive in GLCLB's management to avoid a recurrence of financial and managerial problems.

GLCLB is currently operating day to day. For example, during the first three months of calendar year 2002, when we performed our review, GLCLB was averaging approximately \$72,900 per month in revenues. With \$42,300 in monthly payroll expense and \$24,300 in monthly operating expenses (including future interest expense from the loan to be obtained to pay the IRS), GLCLB is approximately breaking even, without much of a cushion for contingencies. Some months, GLCLB operates at a loss and other months it does better than

break even. At this point, it is critical for GLCLB to maintain its current level of funding and reduce its operating costs, or it may be forced to reduce its current level of services rendered. An agency's inability to continue to render its current level of services is a measure of imperiled financial viability for exempt organizations.

Furthermore, the financial viability of GLCLB will continue to remain in peril until the GLCLB pays off the IRS. The reason for this is that GLCLB is now dependent upon the mercy of the IRS and the IRS' willingness to carry the delinquent payroll tax debt indefinitely. This is particularly dangerous because the GLCLB is currently operating day to day. Should the IRS demand payment of the delinquent payroll taxes through a lien of GLCLB's bank accounts, GLCLB would not be able to meet its current obligations.

The second part of the IRS liability issue is that GLCLB has presented a healthier financial picture than it really enjoys, by manipulating the financial statement presentation of the IRS delinquent payroll taxes. As discussed in this report, GLCLB has continued to present this liability as a long-term liability, even though it is aware that delinquent payroll taxes are a short-term liability, because the IRS may choose to demand immediate payment at any time. This mis-statement of the financial statements prevents outside funding sources from seeing the true current financial position of GLCLB. If outside funding sources became aware of the correct current financial position of GLCLB, there is a risk that they may not want to continue to fund GLCLB's activities. Again, this places GLCLB in a precarious position because its ability to maintain the current levels of service is dependent upon its ability to maintain its current funding sources.

We feel that GLCLB's financial position will continue to be impacted negatively by the IRS debt. If GLCLB does not take advantage of the currently low interest rates, GLCLB may lose a golden opportunity to get the IRS debt off its books promptly in exchange for the more advantageous long-term debt achievable through the refinance of its building. Furthermore, a high IRS payroll tax debt is always costly because it is accompanied by penalties, interest and, just as important, a negative connotation.

METHODOLOGY

During the conduct of our study and evaluation, we performed the following procedures:

- Conducted entrance and exit conferences with key representatives of the Gay and Lesbian Center of Greater Long Beach and representatives from the Los Angeles County Department of the Auditor–Controller and OAPP. A pre-exit conference was conducted with GLCLB staff.
- Secured the names of each department’s staff responsible for the accounting and management functions.
- Submitted a detailed work plan to the Auditor-Controller.
- Read grants and provider service agreements and gained an understanding of their requirements.
- Read applicable sections of the *County Contract Accounting Administration Handbook*.
- Obtained an understanding of the design of relevant policies and procedures, and whether they have been placed in operation.
- Interviewed agency personnel, observed the accounting system, and reviewed transactions to determine compliance with the *County Contract Accounting Administration Handbook*, as well as applicable federal and state requirements.
- Conducted an analysis of the agency’s financial statements.
- Prepared drafts of the Summary of Findings and Recommendations for submission to the Department of the Auditor–Controller, and to be used by GLCLB to improve its operations.
- Reviewed federal and state informational income tax returns.
- Reviewed insurance requirements.
- Made an assessment of policies and procedures, which pertain to accounting, human resources, and administration.
- Conducted a Board of Directors’ Training Seminar.
- Prepared draft and final reports. GLCLB was afforded an opportunity to comment on the findings and submit an Action Plan for implementation of the recommendations.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

F-02-01 *Debt – IRS Payroll Tax Payable*

Condition

As of April 2002, GLCLB reported a balance of \$279,000 payable to the IRS consisting of payroll taxes withheld from employee wages and reported quarterly on IRS Form 941 from the fourth quarter of 1998 through the third quarter of 2001. The IRS confirmed a balance due of \$191,484 , as of January 10, 2003, after the IRS abated the penalties. As of June 20, 2003, GLCLB reports that it owes \$180,000 in delinquent payroll taxes and interest. GLCLB is currently paying \$2,500 per month, which the IRS does not consider to be satisfactory. Liens have not been levied against GLCLB's property or bank accounts, since GLCLB has advised the IRS of plans to raise money to pay the entire balance. GLCLB made timely payroll tax deposits during 2002.

Criteria

Employer payroll taxes, and taxes withheld from employee paychecks should be paid to the IRS promptly. Individual Board members could be held personally liable for delinquent balances. Furthermore, the IRS can place a lien on property and levy bank accounts at any time. They may decide to do so if the current outstanding balance is not resolved promptly.

Effect

A large balance is due to the IRS, which includes payroll taxes withheld, penalties and interest. The IRS has warned GLCLB that a levy can be placed on agency assets at any time, threatening GLCLB's financial viability.

Recommendation

We recommend that GLCLB refinance GLCLB building to pay off the IRS. If the refinance proceeds are insufficient to pay off the IRS, GLCLB may consider fundraisers and loans from Board members. Once the IRS liability is paid in full, GLCLB is advised to refinance again to secure better long term financing terms.

GLCLB's Action Plan

GLCLB continues to focus its fundraising efforts on IRS debt retirement. Although we expected the refinancing of the building to be completed by the end of February 2003, it is not yet done. The interest rate and funding terms we recently received from one of the banks we're working with wasn't as favorable

as we had hoped. We're working with several other institutions to determine who can offer us the best rate while providing the highest possible funding so we can accomplish our goal of eliminating all of our debt by the end of calendar year 2003.

F-02-02 ***Financial Statement Accuracy and Supporting Records***

Condition

The internally prepared financial statements do not reflect correct balances and classifications. For example, the IRS payroll taxes payable are shown as a Long Term Liability. Delinquent payroll tax liabilities are always considered current liabilities. Also, important documents that would be used to verify correct balances, such as the contracts for the telephone purchase and the copier lease were not available during our site visits to GLCLB.

Criteria

Financial statements should report accurate information, and should be supported by documents, which are readily accessible.

Effect

The Board of Directors and others who require interim financial reports do not receive information that is current or accurate. Not having supporting documentation such as GLCLB's copier lease and the telephone system agreement makes it difficult to verify relevant expenses and liabilities reported in the financial statements.

Recommendation

The amount due to the IRS for delinquent payroll taxes should be shown as a Current Liability. The Executive Director should immediately request copies of the copier lease agreement, telephone system agreement, and all similar documents. These should be retained in a secure file and copies should be provided to the Financial Administrator so that correct balances can be recorded in the accounting system and reported in the financial statements. These balances should be reconciled monthly to assure the amounts reported are current. The Board should also receive copies of lease agreements and other contracts. The Financial Administrator and Board copies would provide backups in the event original copies held by the Executive Director are unable to be located.

GLCLB's Action Plan

As indicated in our response to Finding F-02-01, our plan is to have the IRS debt eliminated by the end of calendar year 2003. In the interim, GLCLB will classify the debt as a current liability in its internal and external financial statements relating to our December 31, 2002 financial statements.

Relative to the leases, the current Interim Executive Director is in the process of acquiring the organization's lease agreements on the copier and telephone. Once this is completed, the Board, through the CFO, will receive copies of these agreements, along with any Memoranda of Understanding (MOU's) and contracts.

F-02-03 *Alteration of Financial Statements*

Condition

The Chief Financial Officer, who is also a board member, has changed the internally prepared financial statements. The balance owed to the I.R.S. for delinquent payroll was originally shown as a Current Liability. However, the Chief Financial Officer reclassified the delinquent payroll taxes payable balance as a Long Term Liability. This was done to improve the appearance of the organization's financial position when GLCLB applied to the AIDS Walk Long Beach (AIDS Walk) trustees for funding.

Criteria

1. Financial statements should report accurate data that can be relied upon by the Board and management. Only the Financial Administrator, who is the internal accountant of the organization, should be preparing and entering data and adjustments into the computerized accounting system, in order to preserve and protect the integrity and accuracy of the accounting records. This also limits the responsibility for the accuracy of the data to the one person who is entrusted with the responsibility.
2. The accounting program software has passwords that can be made available only to the responsible individual, to ensure that others, including Board members, do not tamper with the system.

Effect

Although the AIDS Walk activity is part of GLCLB, it has its own trustees who decide how the funds from the AIDS Walk will be allocated. The amount of funds allocated from the AIDS Walk activity to GLCLB was based on inaccurate financial information received by the AIDS Walk trustees from GLCLB. Funding organizations that become aware that they have been given inaccurate information could ask for the return of the funds. They could also refuse to make future contributions. Other agencies could also question the integrity of the accounting records and refuse to fund future programs.

Recommendation

The Board should implement a policy that allows only pre-authorized specified individuals to have access to the accounting software and to input accounting entries into the system. Passwords should be required to access the accounting system and only designated persons should have passwords. All entries should be in accordance with Generally Accepted Accounting Principles (GAAP). Under no circumstances should anyone reclassify or otherwise modify balances so they appear more favorable than they actually are.

GLCLB's Action Plan

As of January 1, 2003, we have outsourced the management of our organization finances to a reputable and trusted Certified Public Accounting (CPA) firm. The CPA and CFO have access to our financial records through a secure, private network that requires a password for access. The CPA is the keeper of the official financial records of The Center and the CFO has access, but no capability to change those records. At present, the Interim Executive Director has no access to those official records, other than the reports generated for management purposes.

F-02-04 ***Financial Statement Analysis – Current Ratio***

Condition

The current ratio measures the availability of current assets to meet current liabilities. In GLCLB's case, the current ratio approximates 24%, which means that GLCLB can only pay 24 cents out of every dollar of its currently due liabilities. This condition threatens the financial viability of any organization, in particular, that of a non-profit one such as GLCLB, which does not have access to excess cash.

Criteria

Sound financial management dictates that, to be viable, an agency must have the means to pay its currently due liabilities. The current ratio should be 100%, which means that the organization would have a minimum of a dollar of current assets for each dollar of current liabilities and would be able to pay its current operating costs.

Effect

The current ratio is commonly used to analyze an organization's ability to meet its current obligations with current assets. A current ratio this low (24%) is an indicator that an organization does not have sufficient current assets to pay its current obligations. In other words, this low current ratio is an indicator that GLCLB's financial viability is at risk.

Recommendation

The extremely low current ratio is the direct result of the large amount due to the IRS. GLCLB should concentrate its fundraising efforts towards paying the IRS debt. If money is borrowed to pay the IRS, long-term loan agreements should be formally entered into so the liabilities will not be current, therefore improving the current ratio.

GLCLB's Action Plan

The current ratio should improve after the IRS debt is paid and is replaced with long-term financing. See GLCLB' response to Finding F-02-01 for further details.

F-02-05 ***Bookkeeping Functions – Monthly Review, Assistance & Board Oversight***

Condition

Balances on the interim financial statements such as the mortgage balance, payroll accruals, and cash are not correctly reported.

Criteria

GLCLB should have correct accrual basis financial statements for presentation to the Board of Directors each month. This information will give the Board and the Executive Director information they need to make critical business decisions. Financial statements, which are current and correct, should also be available for grantors and lenders as required.

Effect

GLCLB's financial statements could be erroneous and misleading to outsiders and even Board members, inhibiting the Board's ability to make effective financial and administrative decisions.

Recommendation

GLCLB should incorporate the services of a board member to assist the Financial Administrator in preparing and posting monthly accruals and other adjustments. An accountant who is a member of the Board of Directors has been assisting in this effort. Regular monthly visits should be scheduled with the Financial Administrator to help with closing entries and accruals in order to present correct financial statements to the Board and others.

Additionally, the outside CPA firm should receive all bank statements directly from the bank and should prepare the bank reconciliation.

GLCLB's Action Plan

GLCLB'S Interim Executive Director, John Glaza and the outside CPA, Crystal Cassidy, meet regularly to review all pertinent information in regard to the financial management of the organization, including, but not limited to, accounts receivable, accounts payable, and overall results of operations to-date, compared to the annual budget.

F-02-06 ***Quarterly Monitoring, Compilation and Management Advisory Services***

Condition

The Financial Administrator is responsible for the entire accounting function. While some members of the Board are providing some assistance to the Financial Administrator, the Executive Director and members of the Board are in need of ongoing compilation and management advisory services, to assist with difficult management decisions, accounting problems, and other problem areas encountered by organizations such as GLCLB. Advisory services would include not only financial issues but also guidance relative to fundraising activities, auctions, contributions, sales tax issues, etc applicable to GLCLB's activities.

Criteria

All organizations, including nonprofits, require regular guidance concerning regulatory and accounting issues in order to make informed decisions about their current operations as well as their future plans.

Effect

GLCLB could run afoul of regulatory requirements subjecting GLCLB to penalties and possible sanctions as a result of lack of adequate information.

Recommendation

GLCLB should procure the services of an independent firm to meet with the Financial Administrator and compile financial statements quarterly, as well as provide management advisory services.

GLCLB's Action Plan

This recommendation has been implemented as per our responses to Findings F-02-03 and F-02-05.

F-02-07 ***Internal Control over Accounting Functions***

Condition

GLCLB does not have an approved manual of accounting policies and procedures.

Criteria

Accounting policies and procedures including authorization for write-offs should be approved by the Board of Directors and documented in a manual, which is available to employees performing accounting and bookkeeping functions.

Effect

Accounting methods and practices are decided upon by persons performing those functions. There is no set of documented and Board approved guidelines to follow when accounting transactions are recorded.

Recommendation

A manual of accounting policies and procedures that applies to the agencies' operations should be written and presented to the Board of Directors for approval. We understand that GLCLB is in the process of developing such a manual at this time.

GLCLB's Action Plan

This recommendation has been implemented. A GLCLB Accounting Manual has been written and approved by our Board of Directors. Additionally, it has been provided to our outside CPA, Crystal Cassidy, who is currently responsible for the management of GLCLB's finances.

F-02-08 ***Internal Control over Cash Receipts***

Condition

Mail is opened by the Office Manager who forwards cash and checks to the Financial Administrator for recording and deposit. The Executive Director acknowledges donations with a letter, however receipts are not always given for donations of cash and checks received.

Criteria

Mail should be handled in a way that assures proper control over funds (cash & checks) received by GLCLB. Internal controls should exist so donors can be assured contributions will be used to further the purposes of the organization for which the contributions are made.

Effect

Assigning one person to open mail minimizes control over cash and checks delivered to GLCLB. Cash and checks received could be misappropriated.

Recommendation

Two persons should open GLCLB's mail and record checks received. Checks should be stamped "For Deposit Only". Persons who perform accounting and bookkeeping functions should not open the mail. A listing of the checks received should be forwarded to the Executive Director to compare to the bank deposit slips prepared by the Financial Administrator. The Executive Director should approve bank deposits and retain a copy of deposit slips. Deposit slip totals should be compared to totals on the bank deposit receipts by the Executive Director. GLCLB should establish a policy that all contributions will be acknowledged with pre-numbered receipts. This practice should be regularly announced in newsletters and solicitations for contributions.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-09 ***Internal Control over Commitments & Contracts***

Condition

Commitments and contracts such as equipment leases and maintenance agreements can be entered by agency employees without prior approval.

Criteria

Commitments and contracts that obligate agency assets should be evaluated and approved in advance by the Board of Directors.

Effect

A telephone equipment contract that committed GLCLB to significant future payments was entered into without documented prior approval.

Recommendation

Although GLCLB requires two signatures on checks, there are no documented procedures regarding prior approval of long term commitments. The Board of Directors should, therefore, establish a limit over which Board approval would be required for any contracts involving installment and/or balloon payments.

GLCLB's Action Plan

This policy was in place over one year ago and the documented procedures are included in our by-laws. However, we have also included this policy in our new Accounting Manual as discussed in our response to Finding F-02-07.

F-02-10 ***Internal Control over Lease Documents***

Condition

There are no procedures to monitor lease documents, terms and expirations. Lease contracts cannot be located by the current administration.

Criteria

Policies should require that lease provisions and termination dates be monitored to allow for competitive bidding before expiration. Buy-out terms should be evaluated to determine if purchasing equipment at the end of lease periods would be advantageous. Documents should be stored in a secure location for future reference and use in determining lease/purchase decisions.

Effect

Since there is no monitoring system in place, equipment leases could expire and continue on a month-to-month basis with GLCLB paying the same monthly rate for equipment that is older and in need of frequent maintenance. It is possible that equipment leases could continue month to month after expiration when affordable buy-out options exist.

Recommendation

The Executive Director should request copies of the lease from the lessor without delay. A copy should be filed in an equipment lease file and a copy should be given to the Board. The Board should assign responsibility for determining the best course of action relative to renewal or termination of leases to a qualified member of the Board. The Executive Director should delegate responsibility for lease management to a staff member to develop a schedule of leases, including expiration dates and terms such as bargain purchase options at termination. A diary system should be used to alert the board member and employees when the lease will expire, and the applicable terms and options available.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-11 ***Internal Control over Fixed Asset Purchases & Disposals***

Condition

GLCLB does not have approved guidelines for purchases and disposals of fixed assets.

Criteria

GLCLB derives much of its income from government contracts, which require documented fixed asset purchase and disposal procedures. Purchasing regulations include competitive purchasing criteria.

Effect

Equipment has been purchased without the benefit of obtaining competitive pricing from more than one vendor.

Recommendation

Although GLCLB recently instituted a policy of obtaining competitive bids for equipment purchases of \$300 or more, this threshold was not determined by the Board. We recommend that the Board of Directors determine and document the appropriate threshold for obtaining bids. Additionally, procedures should be developed relative to disposal of equipment to document whether or not it has exceeded its prescribed useful life and whether a competitive process will be used for the disposal. The Executive Director should present requests for fixed asset purchases and disposals to the Board for approval. The Board should approve fixed asset purchase and disposal guidelines and include them in an administrative policies and procedures manual. The manual should then be made available to employees whose responsibilities include purchasing and disposing of equipment and other property.

GLCLB's Action Plan

All purchases over \$500, as written in our by-laws, must have at least three bids and then be approved by the Board. This policy is included in our recently updated GLCLB Policies and Procedures Manual, which has been approved by our Board of Directors.

F-02-12 ***Human Resources Management Procedures Manual***

Condition

There is no manual documenting the agencies' human resources policies and procedures.

Criteria

GLCLB should have documented administrative procedures regarding human resources policies and employee records management and retention. Human Resources policies should be consistent with GLCLB's government grants and contracts for provider services.

Effect

Although GLCLB's Human Resources employee files are orderly at the present time, there could be changes in administrative personnel. This could result in employee files being incomplete and not in compliance with government grants and provider contracts since there are not approved guidelines for reference by administrative employees.

Recommendation

GLCLB has an employee handbook to provide human resources information to employees. However, the handbook doesn't address administrative requirements for human resources management necessary to comply with governmental regulations and contracts. We therefore recommend that GLCLB document its human resources management policies and procedures in a manual to be presented to the Board of Directors for approval. The approved human resources manual should then be made available to employees involved in human resource management functions.

GLCLB's Action Plan

We have included information pertaining to the Administrative Requirements for Human Resources management in GLCLB's Policies and Procedures Manual discussed in our response to Finding F-02-11.

F-02-13 ***Human Resources Management - Professional Employee Licensing***

Condition

There are no approved procedures to document and monitor credentials of licensed personnel.

Criteria

The organization has provider service agreements with governmental agencies that require that program employees have specified credentials. There should be documented administrative procedures regarding human resources policies and procedures. These should include obtaining copies of licenses, certificates and other necessary professional employee credentials.

Effect

Although certificates are being obtained from professional employees at the time they are hired, since there are no written procedures to document this requirement, new administrative employees may not become aware of this requirement. This could result in professional level employees beginning work before furnishing evidence of their credentials. Also, employee licenses expire, and GLCLB would not necessarily be aware of expirations, since there are no procedures in place to monitor re-licensing requirements.

Recommendation

GLCLB should develop procedures to be approved by the Board of Directors for new employees who will work in programs that require specified levels of education, training, and supervision. Licensed and credentialed employees should be required to provide hard copy evidence of their qualifications prior to assuming program related responsibilities. A diary system should be established so GLCLB can follow-up to assure professional licenses are renewed. Board approved procedures should be included in a Human Resources manual.

GLCLB's Action Plan

All of The Center's licensed staff provide a copy of their current licenses upon being hired, and all licenses will be reviewed bi-yearly by GLCLB's Contract Compliance Manager to ensure that the licenses stay current. This policy is included in GLCLB's updated Policies and Procedures Manual discussed in our responses to Finding F-02-11.

F-02-14 ***Cost Allocation Plan***

Condition

GLCLB does not have a formal documented cost allocation plan to apply when recording program expenses. Expenses are not classified by the functional areas of *Program, Management & General, and Fundraising*.

Criteria

GLCLB receives federal funds passed through Los Angeles County and the City of Long Beach. The federal government OMB Circular A-110 and the Los Angeles County *Contract Accounting and Administration Handbook* require other than direct costs to be allocated in a systematic and rational manner. Expenses should be functionally classified as *Program, Management & General, and Fundraising* in accordance with FASB 116.

Effect

The majority of the agencies' expenses, except for salaries, are divided evenly among the programs. There is no documented methodology of GLCLB's cost allocation procedures. Audits by the County or other governmental offices could result in GLCLB having to repay costs that have been reimbursed but are not supported. Program cost management is not effective if existing expense allocations do not reflect actual circumstances. *Program, Management & General and Fundraising* expenses are not recorded in accordance with FASB 117 and were improperly reported in the 2000 IRS Form 990 Information Return.

Recommendation

A cost allocation plan should be developed to allow for expenses to be distributed among cost centers in accordance with a verifiable system based on payroll, square feet, or other factors that can be shown to influence costs. Costs should be able to be classified functionally by program, management & general, and fundraising when financial statements are prepared.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-15 ***Cash Flow Management***

Condition

GLCLB does not have a formalized procedure to project and manage cash flow needs.

Criteria

GLCLB is responsible for meeting cash requirements of the agencies programs and operations including payroll, benefits and other costs.

Effect

A lack of detailed planning of the agencies cash flow could result in unanticipated shortfalls of cash on hand compared to cash requirements.

Recommendation

During the last week of each month GLCLB should complete a detailed budget of expected cash on hand and cash required paying amounts due for the subsequent month. Cash flow should then be monitored each week. A Board member should be assigned to oversee and assist with this function.

GLCLB's Action Plan

The Interim Executive Director, the CPA and the CFO communicate regularly regarding the organization's cash flow. This team is working closely together in an effort to improve the accuracy of our cash flow forecasts.

F-02-16 ***IRS & FTB Information Return Filings***

Condition

IRS Form 990 and FTB Form 199 have been prepared by a tax service with Balance Sheet and Profit and Loss information generated from GLCLB's bookkeeping system, which was not maintained using the accrual method of accounting for the years 1998 through 2000. We noted other errors on the returns. Accruals were not posted even though the returns reported that the accrual basis of accounting had been used. No fundraising expenses were shown on the Form 990 schedule of functional expenses even though there were fundraising activities during the year, and the value of contributed services was not recognized on Form 990, Item 82. Schedule B wasn't required; however Box L had not been checked, as it should have been. Tax returns were therefore prepared incorrectly with unaudited financial information. Additionally, the IRS indicates that GLCLB owes \$6,728 of penalties associated with the Form 990 for the years 1998, 1999 and 2001. This balance is due and payable immediately.

Criteria

OMB Circular 110, the Los Angeles County *Contract Accounting and Administration Handbook* and the organization's grants and provider service agreements require an annual independent certified audit. Information on returns filed with the IRS and FTB should correspond with the audited financial statements. The IRS recognizes FASB 116 & 117, and SOP 98-2 for preparing IRS Form 990. These regulations require a breakdown between *Program, Management & General* and *Fundraising* expenses.

Effect

The Form 990 and Form 199 returns that were filed for years 1998 through 2001 are incorrect, which could result in potential penalties for GLCLB. GLCLB's continued failure to pay the delinquent Form 990 taxes could result in the cancellation of GLCLB's exempt organization status.

Recommendation

Amended returns for the prior two years should be filed after the financial information has been corrected. A checklist should be developed and used annually to document when the various forms are to be filed with the appropriate federal and state agencies. A Board member should be assigned to monitor tax filings to ensure that they are filed timely.

The IRS' position, relative to the penalties for filing Forms 990 late, is to abate them if the exempt organization requests the abatement of the penalties in writing, and the organization can show that it faced extenuating circumstances

that made it unable to file the returns timely. Therefore, GLCLB should pursue this course of action, if it meets this requirement. If GLCLB is unsuccessful in this attempt, GLCLB should pay the IRS penalties without further delay.

As a precautionary measure, GLCLB should adopt the practice of filing each year IRS Form 8868 for an extension of time to file beyond the current due date of May 15, to prevent the assessment of penalties. This will allow GLCLB's outside CPA to prepare the Form 990 with the required audited information, without the risk of incurring a late-filing penalty.

GLCLB's Action Plan

A request for extension for filing IRS Form 990 was submitted for 2001 and 2002.

Corrections to prior year financial information are being developed, and when complete, amended returns will be filed.

A checklist to annually document filing according to requirements for federal and state agencies will be included as part of overall policy and procedure development efforts. A Board member has been designated to monitor tax filings to ensure they are timely filed.

F-02-17 ***Registration with the California Attorney General***

Condition

- 1) GLCLB does not appear as One in Long Beach, Inc., Gay & Lesbian Center of Long Beach, or as GLCLB, in the California Attorney General's database of nonprofit organizations.
- 2) GLCLB does not appear to be registered with the California Attorney General. Registration/Renewal Report RRF-1 was not filed with the California Attorney General Registry of Charitable Trusts as required.

Criteria

- 1) Charitable nonprofit organizations operating in California must register with the California Attorney General Registry of Charitable Trusts. Nonprofit organizations that are registered appear in the Attorney General's database. Registration does not happen automatically when incorporation papers are filed or when exempt status is granted by the FTB.
- 2) RRF-1 is to be filed within 4 months and 15 days after the end of GLCLB's fiscal year. Extensions of time to file are not granted for this form.

Effect

- 1) GLCLB could be subject to financial penalties for not registering with the California Attorney General.
- 2) GLCLB may be subject to penalties for not filing form RRF-1 on a timely basis.

Recommendation

- 1) Registration Form CT-1 should be completed and filed with the California Attorney General, Registry of Charitable Trusts without delay.
- 2) GLCLB should also file delinquent forms RRF-1 with the Registry of Charitable Trusts.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-18 ***Report of Income Paid for Services, Interest or Rents***

Condition

GLCLB has not filed the required IRS Form 1099-MISC for payments made to non-employees.

Criteria

In general Form 1099-MISC should be given to each contractor who received \$600 or more during the year. Corporations are excluded, however a 1099-MISC should be prepared for attorneys paid fees of \$600 or greater whether incorporated or not. Also all rent paid must be reported on Form 1099-MISC except for payment of rent to real estate agents. Interest paid to individuals totaling \$10 or more per person, per year, must also be reported on Form 1099-INT.

Effect

GLCLB could be subject to penalties for not reporting contractor income on Form 1099-MISC as required.

Recommendation

Past due Forms 1099-MISC should be completed and filed without delay. Forms 1099-MISC should be completed and distributed to contractors annually for each calendar year by January 31 of the subsequent year.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-19 ***Required Professional Liability Insurance Limits***

Condition

Limits of the agencies professional liability insurance policy are below the aggregate amount specified in the Los Angeles County HIV/AIDS Treatment & Advocacy Service grant agreement.

Criteria

The Los Angeles County HIV/AIDS Treatment & Advocacy Service Agreement specifies that professional liability insurance limits should be at least \$1,000,000 per occurrence, \$3,000,000 aggregate. GLCLB's policy is for \$1,000,000 per occurrence, \$2,000,000 aggregate.

Effect

GLCLB is not in compliance with contract requirements with the County of Los Angeles, since GLCLB's professional liability insurance coverage limits do not comply with the limits specified in its contract with the County of Los Angeles.

Recommendation

GLCLB should obtain insurance coverage limits that comply with provisions of their provider service agreements and grants.

GLCLB's Action Plan

Our liability insurance has been increased to meet your criteria. Our policy notes our professional liability to be \$1 million per occurrence, with a \$3 million aggregate coverage.

F-02-20 ***California FTB Exempt Status***

Condition

GLCLB is exempt as a nonprofit under IRC 501(c) 3 and is incorporated as a nonprofit organization in the State of California. However, GLCLB does not have documentation to show it is exempt from state income taxes.

Criteria

A copy of the FTB determination letter granting exempt status should be kept on file so it is available to the Executive Director to submit with grant proposals, and for other purposes as required.

Effect

Grant proposals could be denied if GLCLB does not have documents to prove that it is exempt from state income taxes.

Recommendation

GLCLB should obtain a copy of its letter of determination as a nonprofit organization exempt for California state income tax from the FTB. All documents relating to GLCLB's tax-exempt status should be retained in a secure location by a Board member and the Executive Director, with copies available to persons who complete grant proposals and others who require copies for agency administration purposes.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-21 ***Internal Control over Assets***

Condition

GLCLB does not have specific insurance coverage or bonding to provide financial protection against employee dishonesty.

Criteria

GLCLB should undertake reasonable risk management procedures to protect its assets against employee dishonesty.

Effect

Financial losses could occur that are not covered by insurance or bonding, even though such coverage is generally affordable.

Recommendation

GLCLB should obtain costs of insurance or bonding to provide employee dishonesty coverage, and should purchase coverage if the costs are reasonable when compared to the risk.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-22 ***Budget Control over Income & Expenses***

Condition

Although program budgets are prepared and submitted with grant and provider contract proposals, GLCLB does not have an overall budget of income and expenses.

Criteria

Annual budgets should be prepared to promote the overall stewardship of GLCLB by providing the Board of Directors with financial milestones to be achieved over specific periods of time.

Effect

Financial data cannot be compared to targets previously approved by the Board. Also, budget variations can indicate financial irregularities when agency operations are otherwise performing as expected.

Recommendation

A budget for the entire entity should be prepared annually and submitted to the Board for approval. The Board should then compare actual performance to budget and prior year numbers each month. Any deviations should be investigated without delay.

GLCLB's Action Plan

This recommendation has been implemented.

F-02-23 ***Credit Card Supply Purchases***

Condition

There are no documented procedures for credit card purchases of supplies. GLCLB has a credit card account with a major office supply vendor who they have determined to be price competitive. The card itself is used sporadically; however the credit card account number is used to order supplies over the Internet. Although there is an informal understanding of purchase handling methods, current procedures do not result in purchases always being accounted for adequately.

Criteria

The Los Angeles County *Auditor Controller Contract Accounting and Administration Handbook*, (A-2-4) discourages use of (agency & employee) credit cards except when normal purchasing and disbursement practices are not suitable. When credit cards are used, adequate control should exist to assure that purchases are necessary and reasonable. Internal control should be maintained over purchasing transactions.

Effect

Current procedures do not provide adequate control over credit cards or credit card account purchases.

Recommendation

Supply purchasing procedures should be developed and approved by the Board of Directors. These procedures should be documented in an Accounting Manual and a Purchasing or Administrative Procedures Manual. Also the purchasing function should be assigned to one individual who will act as the Purchasing Administrator.

Should GLCLB decide to keep its credit card, an acceptable exception for continuing their use should be documented and approved by the Executive Director who should retain the cards. Credit cards should be signed in and out by persons using them. The Executive Director should retain the log of credit card uses and compare them with the charges in each month's statement.

Supply purchase requests should be completed in writing and given to the Purchasing Administrator. The Purchasing Administrator should place orders on a written order form to be mailed, emailed or faxed to the vendor. Orders can also be placed over the Internet. A copy of the order form should be given to the employee who requested the supplies, that employee should receive the shipment when it arrives. Shipping bills should be compared to order forms to assure

complete shipments are received. Shipments that are not complete should immediately be clarified with vendors and shipping bills noted. Shipping bills for complete shipments should be signed & dated by employees receiving them. Signed shipping bills should then be forwarded to the Financial Administrator for comparison to vendor invoices to assure goods are received before payment is made.

Supply vendors should be notified that GLCLB would place orders in writing or "on-line" rather than using credit cards, for the majority of supply purchases.

GLCLB's Action Plan

GLCLB has instituted and memorialized a policy stating that no credit cards will be applied for and/or issued to any employee or Board member of the organization. Currently, the organization holds one charge account with an office supply store. Control of this account is strictly governed by the Executive Director and the account is reviewed each month by the Board.

F-02-24 ***Internal Control over Purchasing Procedures***

Condition

Purchasing procedures have not been formally documented, nor has the Board of Directors approved them.

Criteria

Cost principles should be approved by the Board to provide that purchase expenses are reasonable, necessary and proper. Internal controls should allow for monitoring of purchase activities in accordance with agency policies, and guidelines of OMB Circular 110 and the Los Angeles *Auditor Controller Contract Accounting and Administration Handbook*.

Effect

Without formalized procedures, purchases could be made that are not reimbursable by funding organizations because costs do not meet federal or County guidelines.

Recommendation

Federal and County cost principles should be reviewed and incorporated into purchasing procedures for approval by GLCLB's Board. These should include internal control procedures including written purchase requests approved by the Executive Director, and by the Board for large or unusual purchases as well as commitments that involve installment payments. Grants and provider contract budgets and provisions should be reviewed to assure that proper approvals and notifications occur. An employee should be designated as the Purchasing Administrator to assure GLCLB receives the lowest possible pricing. The Purchasing Administrator should also review purchase invoices for correctness and to avoid duplicate payments.

GLCLB's Action Plan

Our Executive Director must approve all purchase orders. Any item requested over three hundred dollars must have three bids. Any purchase over five hundred dollars must have three bids and be approved by the Board. This can be found in our accounting policy and procedures manual.

F-02-25 ***Capital Expense Recognition***

Condition

A documented and Board approved policy identifying the minimum value of items to be capitalized does not exist.

Criteria

Administrative procedures should exist which include the minimum value of assets to be capitalized.

Effect

Although there have been expenditures for equipment such as a telephone system and computer components, it is possible that items that should be capitalized have been expensed and vice versa.

Recommendation

The Board should review grantor guidelines to determine the minimum value of assets to be capitalized. The impact on financial statements should also be considered. For example, the Los Angeles County Auditor Controller's *Contract Accounting and Administration Handbook* recommends capitalizing all fixed assets with an acquisition cost of \$1,000 or more.

GLCLB's Action Plan

All capital goods over one thousand in value are leased, not purchased, at this time.

F-02-26 *Equipment Inventory*

Condition

An inventory of the agencies equipment has not been taken previously, although GLCLB is in the process of inventorying fixed assets at the present time.

Criteria

The state and County require an annual inventory of fixed assets. Tags identifying GLCLB as the owner should be affixed to all equipment. Equipment purchased with money from a specific program should be so identified.

Effect

Although an inventory is in process as of the date of this report, GLCLB has not been completing inventories on an annual basis. Equipment could be missing or incorrectly recorded. Assignments of computers and other assets to employees would be more systematic when a complete and up-to-date inventory listing on-hand is available. Without this information it is difficult to calculate depreciation or to have comfort that values are correctly reported and the agencies financial statements.

Recommendation

GLCLB should perform annual equipment inventories in accordance with state and County guidelines, and equipment should be tagged to identify GLCLB as the owner. In the equipment records, equipment should be identified as purchased with specific grant/contract funds as applicable. Annual inventory requirements should be approved by the Board of Directors and included in an administrative procedures manual.

GLCLB's Action Plan

We did a physical inventory of the entire Center on January 2, 2001. That inventory is in writing in our accounting office with a copy in the Executive Director's office. The completed inventory was forwarded to our CPA for subsequent incorporation into our financial reporting system.

F-02-27 ***Expense Recognition - Mortgage***

Condition

Mortgage interest and mortgage principal balance changes are not recorded on a regular basis.

Criteria

Expenses and liability balances should reflect the activity of GLCLB over a period of time, and the financial position at a given point in time.

Effect

When mortgage payment activity is not recorded, expenses and liabilities are incorrectly stated. The Board of Directors, and others with a business need to use the agencies interim financial statements do not have current information to review.

Recommendation

The mortgage statement should be reconciled to the general ledger at the time it is received each month.

GLCLB's Action Plan

We are currently recording our monthly mortgage payments with the proper amounts going to principal, interest and impounds.

F-02-28 ***Automobile Liability Insurance – Employee Certificates of Insurance***

Condition

GLCLB does not have automobile liability insurance that provides basic coverage for non-owned vehicles. GLCLB has liability insurance that provides excess coverage beyond the basic coverage paid for by each employee's policy.

Criteria

GLCLB has a non-owned and hired auto liability insurance policy that anticipates that GLCLB's employees have their own auto liability insurance to provide primary coverage if and when they will operate their personal cars for GLCLB business. Based on this, GLCLB's liability insurance policy provides only excess liability coverage, not primary coverage, on non-owned automobiles.

Effect

Employees may be driving their own cars for GLCLB business without insurance. If such an employee were to have an accident while driving on company business, GLCLB may have to absorb the liability. This could cause additional cash flow problems for GLCLB and make it difficult to negotiate favorable future insurance premiums with its current or future insurance carriers.

Recommendation

GLCLB needs to have automobile liability insurance coverage that meets the County of Los Angeles' contract requirements for automobile liability insurance coverage naming the County of Los Angeles as an additional insured.

GLCLB's Action Plan

Only two employees ever use their own personal vehicles during business hours. We do keep a copy of their insurance on file. We looked into having ourselves named as additional insured on their policies, but their insurance companies want to charge them for that; therefore, we felt that was onerous on our employees.

ONE IN LONG BEACH, INC.
GAY AND LESBIAN CENTER OF LONG BEACH (GLCLB)
2003-2005 FINANCIAL MANAGEMENT PLAN

2003 FINANCIAL MANAGEMENT PLAN

2003 Financial and Accounting Component

1. GLCLB needs a firm plan, supported by firm commitments worked out for the repayment of the IRS liability. We realize part of this solution may include a refinance of the building owned by GLCLB, conducting fundraisers, and obtaining loans from board members. If board member loans will be made, GLCLB should obtain the loans from board members as soon as possible.
2. If unable to secure sufficient board member loans to pay-off the IRS, it may be advisable to refinance GLCLB building immediately and secure smaller loans from board members. Once the IRS liability is paid in full, refinance again to secure better long-term financing terms, if the first refinance did not yield the most beneficial terms due to the existence of the IRS debt. With a new loan of \$325,000 on the building (65% of \$500,000) and payoff of \$175,000 on the old loan, this nets \$150,000 for GLCLB to pay a substantial part of the \$180,000 currently owed to the IRS. This leaves approximately \$30,000 to be raised through other means, such as fundraising and Board member loans.
3. We recommend that GLCLB develop a cost-cutting plan immediately to ensure that it will be able to continue providing services in the future. For the first three months of the 2002 year, GLCLB was averaging about \$72,900 per month in income. With \$42,300 in payroll expense and \$24,300 in operating expenses, including future interest expense from the loans to be obtained to pay the IRS, GLCLB is barely breaking even without any cushion for contingencies. This is an indicator of impaired financial viability.
4. GLCLB could develop a cost allocation plan by June 30, 2003. As part of this process, GLCLB should also include training in the allocation of time between direct costs attributable to specific projects or grants and indirect costs benefiting the Center as a whole, to ensure that GLCLB is allocating and recovering cost correctly.
5. GLCLB should develop a three-year budget for The Center. It should include an operating budget, cash flow projection, and a capital budget. It should include a column for current activity for each item with a variance column to show any differences. A draft copy should be completed by July 15, 2003. A final copy should be ready by July 31, 2003.
6. Budgets should be prepared for all fundraisers. A budget might indicate that some fundraisers would not yield a high enough return over expenses to develop or use this type of activity. Additionally, the profit and loss of each fundraiser should be reflected

as part of the financial statements monthly. A separate revenue and expense report should be prepared for each fundraiser.

7. GLCLB should contact a number of corporate sponsors to ask for the loan one of their executives for a period of one year, at no cost to GLCLB, if GLCLB determines that the newly-hired Executive Director would benefit from this additional assistance
8. An evaluation of the true cost of each service area should be performed immediately to make sure that the costs billed are indeed covering GLCLB's fully allocated costs. If they are not, GLCLB should reconsider whether to continue rendering those services that might have excess costs.
9. Audits of the financial statements should be completed each year, in order to ensure GLCLB's eligibility to apply for future grants and other financial support.
10. GLCLB should continue to prepare weekly and monthly cash flow projections to be reviewed by the Board.
11. File all tax reports on time, including, but not limited to, Forms 1099, 941, DE-6, DE-88, 940, 990, 199 and RRF-1.

2003 General Management Component

1. A staff member who is not responsible for preparing checks, or reconciling the bank account, should be designated the responsibility for procurement of equipment and supplies. A board member should monitor this person's activities each month, prior to any purchases. When the item is of a value over \$2,500, three bids should be received. A cost price analysis should be done prior to obtaining bids.
2. A staff member should handle all contracts for insurance. These activities should also me monitored by a Board member on a monthly basis.
3. GLCLB should always have a highly qualified Executive Director on staff, to ensure GLCLBL's continued ability to meet its contractual and compliance obligations in the future. We believe that a professional with excellent leadership skills, knowledge of fiscal nonprofit requirements, and extensive fundraising experience will be required permanently.
4. Competitive bidding should be installed as a regular procedure for purchasing. We noticed that using competitive bidding might lower lab and insurance services costs. GLCLB should inquire as to the possibility of having an independent laboratory perform all functions (phlebotomy, lab testing, and reporting), which may reduce The Centers insurance cost, and the total costs of the program.
5. We have noticed the large increase in the Hispanic community in Long Beach. Programs in health care, education and counseling for Hispanic clients might be considered by the Center this year. If GLCLB considers this to be a possible new market capable of increasing revenue, flyers on other materials should be distributed to the community.
6. A corporate sponsor might also be used to cover the cost of printing the monthly publication, the Center Post. Possibly a large newspaper, a publishing company or one of the utility companies may be willing to sponsor this item.
7. A separate section of the Center Post should be designed for services provided by the Center. A detailed description of the services, cost, location, time of day, phone number, and the name of staff person.
8. A job and duty description should be written for each staff member.
9. The Center has completed an accounting manual and we would like to see internal control policies and procurement instituted immediately.
10. GLCLB should try to obtain free community service announcements promoting The Center in local radio stations.
11. GLCLB should inquire relative to the possibility of placing free announcements about GLCLB's services in the public access channel through the local cable company.

2003 Board of Directors Component

1. A more aggressive program of advertising and promotion is needed for the Center. Possibly a new board member could be added to achieve this goal in 2003.
2. We would like to see a two to three year commitment of the Center's Board. We believe specialists in nonprofit organizations in the areas of law, accounting, and marketing/advertising would be very helpful over the long run.
3. With the increasing demands of The Center, a new Board election should be conducted in 2003.
4. Each Board member should be designated as an oversight review specialist in the key areas of leasing, human resources, building improvement, and grants management. They should be informed of the budget to actual for each of these activities.
5. A Board member should be elected or appointed to be a grant management specialist.
6. Along with corporate sponsorship, a Board gift-giving committee should be established to better assist in achieving these long-range commitments.
7. A Board committee should be organized for a capital improvement fund.
8. A summary of duties should be assigned to each Board member. We would like to see total involvement of Board members in key decisions that affect GLCLB.
9. A job and duty description should be developed for each Board member.

2003 Grants Management Component

1. We believe that the current band of activities for this organization may not be wide enough. Possibly grants in education, psychology, and other health care areas might be considered as additional sources of revenues.
2. We recommend for GLCLB to begin applying for any additional grant money that may be available from the AIDS Walk program. This grant money may not become available until later in 2003 or 2004. However, the application process should begin as soon possible. GLCLB currently receives 51% of the AIDS Walk proceeds, or approximately \$51, 000. GLCLB indicates that the remaining 49% is available as grants, in which GLCLB has not been participating. We recommend that GLCLB apply for some of the additional AIDS Walk grant funds as soon as possible.
3. Although spot fund raising needs to be done, long-term commitments are much more desirable. Corporate sponsors and long term community involvement will yield a more reliable source of funds. In Long Beach, both Community Bank and Bank of America might be solicited for a long-term relationship.

2004 FINANCIAL MANAGEMENT PLAN

Financial and Accounting Components

1. Secure a line of credit for the months that cash flow may not be adequate to cover short-term payroll or other operating expenses.
2. At least two state grants and one federal grant should be secured to contribute to GLCLB's growth and financial stability.
3. Complete 2003 annual audit by March 31, 2004.
4. To file all tax reports on time including, but not limited to, Forms 990, 1099, and 941 DE-6, DE-88, 940, 990, 199, and RRF-1.
5. An unsecured line of credit should be secured as soon as the IRS debt is paid to assist in short term cash flow.

General Management Component

6. Hire a consultant to do overall operations on a quarterly basis, to oversee the accounting, tax filing, grant writing, and nonprofit organization management and administrative functions and answer staff questions.

Board of Directors Component

7. Reorganize the Board of Directors to ensure that the members collectively possess all of the expertise required by The Center such as with strengths in fund raising, new grant acquisition, health care, insurance, financial management, program management, legal, public relations, nonprofit management, etc.
8. We would like to see an advisory board organized that includes doctors, entertainers, lawyers, bankers, business owners, and large corporation executives. These large corporation executives should include the pharmaceutical and health care industries. This advisory board could provide a wealth of resources to GLCLB.
9. Develop a corporate committee of large corporations with community development programs.

Grants Management Component

10. A human resources manual should be completed as soon as possible.

2005 FINANCIAL MANAGEMENT PLAN

1. To secure another federal grant in health care.
2. To secure two state grants in education, health care, or counseling.
3. Complete the 2004 Financial Audit by March 31, 2005.
4. File all tax reports on time including, but not limited to, Forms 1099, 941, DE-6, DE-88, 940, 990, 199 and RRF-1.

ONE IN LONG BEACH, INC.
GAY AND LESBIAN CENTER

**GLCLB'S PROPOSED RESOLUTION OF OUTSTANDING OBLIGATIONS
As of April 30, 2002**

IRS Obligation

As of April 30, 2002, GLCLB owed approximately \$279,000 in delinquent payroll taxes, penalties and interest. As of January 10, 2003, all penalties were abated. GLCLB owes approximately \$180,000 in delinquent payroll taxes and interest to the IRS. GLCLB indicates it intends to pay off the IRS soon after it completes the refinance of GLCLB building at the end of calendar year 2003.

Community Commerce Bank

As of April 30, 2002, GLCLB owed approximately \$175,000 to this lender for a mortgage on its building. This debt was current as of April 2002. This loan will be refinanced to lower the 12% interest rate and increase the loan amount on the building, as well as pay off the IRS.

Long Beach Gay & Lesbian Program

The Center owes this organization \$16,000 as of April 2002. The payment of \$1,000 per month is current. This debt bears no interest rate.

Failure to Issue 1099's to Independent Contractors

GLCLB has failed to report income to independent contractors for the last three years. The IRS penalties for this infraction are \$50 per information return if you file after August 1st, or you do not file required information returns; maximum penalty per year for small businesses is \$100,000.

BOARD OF DIRECTORS TRAINING

On May 11, 2002, Nunez & Associates, Inc conducted a half-day Board of Directors' training seminar. The seminar took place in the Westin Hotel in Long Beach, as part of GLCLB's Board of Directors' Retreat, hosted by GLCLB.

A seminar manual was provided to each attendee. The seminar afforded an opportunity for extensive discussion of the materials by the attendees, as well as several question and answer sessions. Evaluation forms were completed by the attendees at the conclusion of the seminar.

The Board of Directors training included a presentation and discussion of the following:

- The stated purposes of the organization
- Transactions should advance the stated purpose of the organization
- Transactions should not benefit a private individual
- Promises made when funds were raised must be recognized
- Conditions placed on donated funds must be followed
- Board members should attend the Board of Directors meetings
- Board meetings should be held regularly
- The Board should receive all the relevant facts needed to make decisions
- Reasons not to trust information being furnished should be investigated
- Evaluation and analysis of financial reports
- Taxes should be reported and paid in a timely manner
- There should be no conflicts of interest or self-dealing
- Transactions should be fair to the organization
- Decisions should be made as a reasonable and prudent person would decide the matter
- Laws that affect particular situations should be investigated
- Agency records should be complete and accurate

- Board members should act honestly, in good faith, and with total integrity
- Transactions should be in the best interest of the organization
- Purposes and uses of an Advisory Board
- Suggestions for establishing an Advisory Board
- Targeting potential Board members with particular specialties
- Identifying corporations with a management pool to request services of an executive director for one to two years
- Developing a list of corporations who could be contacted about furnishing printing and distribution services for the *Center Post* as an in-kind service
- Developing relationships with corporations who could be asked to underwrite costs of fundraising events.